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## Italy

### Dairy and Products

**Parmalat: business as usual for Italian dairies**

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**Report Highlights:** The Parmalat Group, a multinational dairy giant based in the Italian city of Parma, filed for bankruptcy in December 2003 after admitting a multi-billion euro shortfall in its accounts. After eight months from the announcement of the financial scandal, the impacts on Italian farmers have been much less severe than originally expected, mainly thanks to the intervention of the Italian Government. Nothing has yet been announced about the future of the 14 group subsidiaries in the United States.

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## Background info

The Parmalat Group, a multinational dairy giant based in the Italian city of Parma, filed for bankruptcy in December 2003 after admitting a multi-billion euro shortfall in its accounts. Shortly afterwards the Italian cabinet approved a new law making bankruptcy proceedings swifter for large companies and giving them a better chance to restructure successfully.

The new rules for so-called "extraordinary administration" have allowed for the immediate appointment of Enrico Bondi, a corporate turnaround specialist chosen to supplant Mr Tanzi, as administrator. Mr. Bondi developed a restructuring plan for the group that was approved by the Italian government in late-July 2004

The government of Italy's primary concern is to minimize any wider fall-out from Parmalat, which plays a crucial role as Italy's biggest food company. When the financial scandal was announced, the company had run up a 120 million Euro milk bill with Italian farmers and additional bills with other European (mainly French) and non-European farmers.

## The Parmalat Group

The Parmalat Group is one of the world leaders in fluid milk, with leading positions in other sectors such as: yogurt, desserts, fruit juices, tomato derivatives and baked goods. The Parmalat Group controls companies in 30 countries and employs around 37,000 people globally. In 2002 the Group reported sales of 7.6 billion euros, with Europe accounting for 35.5%, North America 34.9%, South America 21% and the rest of the world for 8.6%.

According to a recent AC Nielsen international survey quoted by the group's management, Parmalat is amongst the top 23 global food brands. The portfolio of brands owned by Parmalat includes:

<b>In Italy</b>	Parmalat (milk and yogurt), Santal (fruit juices and iced tea), Centrale di Roma, Lactis, Berna, Ala, Frescoblù (fluid milk).
<b>In Europe</b>	Kyr (yogurt), Chef (milk cream and béchamel), Pomì (tomato sauce), Grisbi', Mr Day, Prontoformo (snacks and bakery products), Acqua (water).
<b>In North and Central America</b>	Beatrice (milk and dairy products, cheese, yogurt, drinks), Mothers, Salerno, Archway (bakery products), Esker (mineral water), Astro (yogurt), Clinton, Balderson, Blackdiamond, Cheestring (cheese).
<b>In Brasil</b>	Etti (tomato sauces), Batavo (milk, yogurt, creams), Gloria (milk and dairy products).
<b>In Australia</b>	Pauls (milk and dairy products), Vaalia (yogurt), Skinny Milk, Phisical, Trim (special milks).
<b>In South Africa</b>	Bonnita (milk).

In addition, the Group also controls the majority of other leading Italian companies in the dairy industry such as Latte Sole Spa, Consorzio Produttori Latte di Monza and Giglio.

The Italian subsidiaries of the Group purchase annually on average 1.1-1.2 million tons of fresh milk, of which about 0.8 million tons is produced in Italy and the balance is imported from other EU countries. This volume accounts for 8% of the annual fresh milk production of Italy, with higher incidence in the southern regions.

About 330,000 tons of fluid milk are purchased annually through contracts and agreements with 1,265 private farmers, whilst the rest of the milk purchased in Italy (about 0.47 million tons) is supplied by cooperatives. The overall number of Italian dairy farmers hit by the Parmalat crisis could be between 3,000 and 4,000 including members of cooperatives.

The Group owns 10 plants for fluid milk processing located all over Italy, 8 of them (Genova, Bergamo, Torviscosa, Padova, Ancona, Roma, Piana di Monteverna, Taranto) produce fresh milk (short shelf-life) whilst 2 of them (Collecchio and Zevio) produce shelf-stable milk. So far, there have not been interruptions in the processing activities but payment times have increased (from the standard 60-70 days to 120-150 days after delivery to the processing facility). This delay is raising farmers' concerns.

In 2002, Parmalat marketed about 916,000 ton of fluid milk for human consumption in Italy with a market share of about 30%.

### Facts about Parmalat

- About 5,000 dairy farmers impacted worldwide;
- 2.8 million liters of milk delivered every day to processing facilities;
- 1 million tons delivered annually (accounting for 10% of Italian production);
- 330 million Euros (farm gate) value of delivered milk;
- 30% market share of Italian fluid milk;

### The Parmalat scandal and the Italian dairy sector

When the Parmalat financial scandal was announced in December 2004, Italian milk producers feared that the financial distress of group could have affected its ability to pay for their deliveries and to subscribe new purchasing contracts in the future.

After eight months from the announcement of the Parmalat financial scandal, the impacts on Italian farmers have been much less severe than originally expected. Following the declaration of insolvency in January 2004, farmers delivering milk and other products to Parmalat gained the right to be the first to be paid whenever liquidity is generated. foodprocessing activities have continued; and, surprisingly, sales have grown since January.

All the major agricultural players in Italy (farmers' organizations, cooperatives, Ministry of Agriculture) welcomed the decision of the EU Commission on July 14, 2004 to approve the three proposed state subsidy programs (one of GOI, one of Lombardia region, one of French Government) to compensate farmers that suffered losses because of Parmalat's insolvency.

Aid proposed by	Type	Budget
Government of Italy	Farmers are allowed to delay social security payments by two years. It applies to payments due in the three year period 2004-2006.	Delayed payments amount to about Euros 1.32 billion per year. All delayed payments in the three years amount to Euro 3.98 billion.
Lombardia Region	The Regional Government provides guarantee on loans for those farms that supplied milk to Parmalat and did not get cash payments for a period of at least 3 months.	Up to Euro € 24 million guaranteed.
Government of France	Aid to milk suppliers	About Euro 200,000

With regard to industrial activities, including contracting with farmers for supplies of raw materials and subsequent payments, the Parmalat group seems to be operating business as

usual situation. There haven't been any major changes in the volumes of raw commodities (milk, citrus, tomato) delivered by farmers to the group.

### **The future of the group's industrial activities**

So far, Parmalat's domestic and international sales of its products have continued without interruption. (Although Mr. Bondi predicts 2004 sales of around Euro 3.6 billion and a operating loss of euro 108 million, he hopes for a marginal profit in 2005). Nevertheless, there is concern in the Italian agricultural sector over the effects of the restructuring plan elaborated by the company's appointed administrator called "Extraordinary Commissioner" Bondi.

Enrico Bondi met in February with all the major farmers' organizations, milk industry associations, labor unions as well as with representatives of the cooperative sector. The outcome of the meeting was that the restructuring of the Parmalat group would not imply the sale of core activities other than, eventually the "Centrali del Latte" (Milk Centers). The Parmalat Group controls two Centrali del Latte, a large one in Rome and a small one in Cuneo. The focus of the negotiation is on the first one.

The Centrale del Latte in Rome was funded in 1938 by the Rome City Council, that remained the majority shareholder until 1997, when it was privatized and acquired by Cirio, the other big food Italian group that went bankrupt in 2002. Cirio sold the Centrale del Latte of Rome to Parmalat in 1999. The underlying idea of farmers organizations is to bid (through a group of farmers and agribusinesses) for a takeover the Centrale del Latte. This idea seems to be supported by the Mayor of Rome. To our knowledge no follow-up meetings have taken place between Bondi and agricultural representatives.

### **Comments**

As at today, there are no large foreseeable trade changes for U.S. agricultural products as a result of the Parmalat scandal. The company keeps running business as usual domestically and internationally.

It has not yet been disclosed what will be the future of the 14 Parmalat subsidiaries in the United States. (See annex 1 for a listing of these subsidiaries) It is possible that Mr Bondi may propose the sale of some of them, and especially of those that fall outside the core businesses of Parmalat (dairy and processed fruit). FAS Rome will report on future developments.

**Annex 1****Parmalat Group subsidiaries in the United States**

<u>Company</u>	<u>Business type</u>
Archway Cookies, LLC	Food processing
BF Holdings Usa Inc.	Finance company
Bonlat Financing LLC	Finance company
Cheese Traders Inc.	Food company
EVH Usa Inc.	Food processing
Farmland Dairies LLC	Food company
Milk Products of Alabama, L.L.C.	Engineering company
Mother's Cake & Cookie Co.	Food processing
Parmalat Gelaterie Houston, Inc.	Food processing
Parmalat Gelaterie Miami, Inc.	Food processing
Parmalat Gelaterie Usa Inc.	Food processing
Parmalat Ingredients Inc.	Food processing
Parmalat TechHold Corp.	Engineering company
Parmalat Usa Corporation	Food processing

Source: Parmalat Group structure at 31 December 2003 in [www.parmalat.com](http://www.parmalat.com)